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CONFIDENTIAL SECTION 01 OF 03 SHANGHAI 000427

SIPDIS

STATE FOR EAP/CM AND DRL  
NSC FOR WILDER, LOI

E.O. 12958: DECL: 9/29/2033

TAGS: PGOV ECON CH

SUBJECT: SHANGHAI: OFFICIALS SHAKEN BY MILK SCANDAL BUT LITTLE  
POLITICAL IMPACT SO FAR

REF: A. (A) BEIJING 3635  
1B. (B) SHANGHAI 412

CLASSIFIED BY: CHRISTOPHER BEEDE, POL/ECON CHIEF, US CONSULATE  
SHANGHAI, DEPT OF STATE.

REASON: 1.4 (b), (d)

11. (C) Summary: Officials in Shanghai and other East China cities appear shaken by the current milk scandal, but there have been few apparent political outcomes such as forced resignations or incidents of social instability. High-level officials in Shanghai continue to reassure the public and the international community that dairy products are safe, and local officials in other cities believe they have avoided the worst of the crisis. In Shanghai, there have been no reported protests, leaving observers to surmise that rich residents can afford to buy safe milk while poor residents manage to get by. Local officials seem concerned about the issue and the potential of political fallout in the future. End Summary.

No Political Fallout Yet

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12. (C) There have been no reports of forced resignations or other sanctions against officials in East China as a result of the national milk supply crisis (Ref A). Shanghai contacts agree that most of the political fallout from the crisis is focused in Shijiazhuang and other milk producing areas in northern and central China. Lin Shangli, Professor of Public Policy at Fudan University, told Poloff on September 25 that he does not expect any Shanghai officials to be fired because of the tainted milk powder scandal. Chen Yun, also a Fudan professor, blamed poor Central Government oversight for the crisis, calling it "ridiculous" that a "growth at all costs" mentality allows local officials and businessmen to ignore Central Government rules as they produce milk that is unsafe or, citing another example, fail to protect coal miners in Shanxi Province.

13. (SBU) High-level officials in Shanghai Municipality have attempted to reassure the public that dairy products on the city's shelves are safe. Local media reported on September 24 that Shanghai Mayor Han Zheng urged officials at a work

conference to strengthen supervision of dairy products and to provide adequate medical treatment to sick babies. Han emphasized the importance of punishing local officials who are negligent in the supervision of any industry, offering as proof of the government's seriousness the news that several officials (including the General Manager) of the Shanghai Pesticide Factory were fired for a chemical leak accident on September 15.

#### Reassuring the International Community

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¶4. (SBU) Addressing the concerns of the international community, Fan Xiping, Deputy Party Secretary of the Shanghai CPC, told visiting U.S. Consumer Product Safety Commission (CPSC) Director Mark Nord on September 24 that all of Shanghai's dairy products are safe (see septel). In a meeting with the Consul General two days earlier, Feng Guoqin, Chairman of the Shanghai Committee of the Chinese People's Political Consultative Conference (CPPCC) defended Shanghai's food safety record, stating that there are more than 40 inspection teams working in the city to ensure that all dairy products are safe (Ref B).

¶5. (C) Officials at the Shanghai Food and Drug Administration (SFDA) likewise reassured Congenoffs on September 22 that they are taking steps to remove tainted products from store shelves. (Note: Nonetheless, Congenoff employees have found many of the products listed by the Central Government as tainted available on store shelves in Shanghai. End Note.)

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#### The View from Northern Jiangsu Province

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¶6. (C) Xu Jiping, Acting Mayor of Lianyungang Municipality, a city of 4.8 million people in northern Jiangsu Province, offered the view from other parts of East China, telling the Consul General on September 29 that Lianyungang is meeting Central and Provincial Government standards for food safety in the dairy industry and has not seen many cases of residents falling ill. Mayor Xu boasted that the municipality is well organized to handle these types of problems, adding that there were only a few cases of milk contamination in Lianyungang because most of the milk consumed in the city is produced locally by an Australian joint venture company. On inspecting dairy products, Xu said the Municipal Industrial and Commercial Bureau receives instructions from Central Government inspectors on what products to remove from store shelves, and then the bureau transmits this information to stores.

#### People Are Angry, But Reaction Muted

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¶7. (C) Throughout East China, media coverage and discussion in internet chat rooms has focused less attention on the milk scandal than on other news, notably the global financial crisis and the Shenzhou VII space mission. Many average Shanghai citizens have grumbled to Congenoffs that they are unhappy about the current situation, but there does not appear to have been any significant protests in East China either at stores or on-line.

¶8. (C) Lin Shangli at Fudan offered his own reasons for the

relatively calm response to the milk crisis in East China. First, he said, citizens of Shanghai and other cities in East China enjoy a higher standard of living than Chinese in other regions. With higher incomes, residents of Shanghai in particular can afford to switch to imported milk, and while they may have to pay more, they and their children are thus less likely to be affected by the melamine contamination. Second, for those unfortunate poor residents who previously drank Sanlu and other low-end domestically manufactured dairy products, Lin said, the poor are "used to" these types of scandals that are a result of lax supervision. So long as officials now appear to care about the well-being of low income families, Lin added, the government can pacify social unrest before it starts.

#### Disappointment in Local Company

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¶9. (C) To the extent Shanghai residents are expressing their discontent, it is aimed at Shanghai-based Guangming (Bright) Dairy, China's third largest dairy company, which prior to the scandal was thought to have good quality control. Despite the public's concerns, Qian Li, a Quality Control Director at Bright, took a business as usual approach, applying for a U.S. business visa shortly after the scandal broke. Qian even claimed the current milk scandal has had virtually no impact on sales, telling Poloff on September 29 that more stringent product safety inspection requirements at Bright has allowed more dairy products to remain on the shelves in Shanghai than in other cities. (Comment: We are highly skeptical of Qian's claims, and several of post's Agricultural Trade Office (ATO) industry contacts support Professor Lin's conclusion, noting a jump in demand for imported dairy products. End Comment.)

#### Comment

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¶10. (C) Government officials in Shanghai and surrounding cities  
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are intensely focused on the milk contamination scandal, and many of the officials we met, from the Shanghai Deputy Party Secretary to the Lianyungang delegation, appeared shaken by the milk scandal and concerned about the potential for political fallout in the future. Likewise, average citizens in Shanghai appear even more skeptical of the government's efforts to address food safety concerns. Even so, for now, public reaction remains muted.

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